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European Commission proposal to end intervention for corn

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Report Highlights:
On 15 December 2006, the European Commission proposed to abolish the system of public intervention purchases for corn with effect from 2007/08 marketing year. The proposal seems to be based on increasingly outlets for intervention corn stocks. Historically, the EU was a net importer of corn, but at the end of the 2005/06 marketing year corn interventions stocks reached a record 5,6 million MT (representing 40 percent of total intervention stocks). Commission forecasts suggest that stocks would rise to as much as 15,6 million MT by 2013 under a status quo scenario.

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European Commission proposal to end intervention for corn (maize)

Background

On 15 December 2006, the European Commission proposed to abolish the system of public intervention purchases for corn (maize) with effect from the 2007/2008 marketing year.

In most Member States cereals market prices tend to be above the level of the buying-in price, offers to intervention are moderate and stocks are therefore kept at manageable levels. In southern Member States where consumption surpasses production, prevailing market prices tend to be higher and there is barely any offer to intervention.

However, the buying-in price is attractive in EU regions with lower production costs. These regions tend to be far from the main areas of consumption, and operators are faced with high transport costs and logistical difficulties. In these regions the buying-in scheme no longer serves as a safety net, and has turned into a commercial outlet for which part of the harvest is systematically destined.

In the 2005/2006 marketing year, EU corn production reached almost 50 million MT with two thirds of the total output originating in France (28 percent), Italy (20 percent) and Hungary (18 percent). In the EU 27, Romania will have a leading position as a corn producer, second only to France, with a 17 percent share of total EU production.

Historically, the EU was a net importer of corn and at the end of the 2003/2004 marketing year there were no stocks of corn in intervention. At the end of the 2004/2005 marketing year, total intervention stocks of corn in the EU 25 reached 2.8 million MT. One year later, the total reached a record 5.6 million MT accounting for 40 percent of total intervention stocks, despite the corn harvest in the EU being 5 million MT less than in the previous year. Commission forecasts suggest that stocks would rise to as much as 15.6 million MT by 2013 under a *status quo* scenario.

The Commission's proposal appears to be based on the increasingly limited outlets for intervention corn stocks. International corn prices are typically the lowest of all major cereals, and resale on the world market would therefore yield less profit margin relative to other grains. Regions that prior to accession exported corn with export subsidies now offer a large part of their harvest to intervention which is relatively attractive. Most (about 93 percent) corn intervention stocks are located in Hungary. Disposal within the EU, often constrained by high transport costs, could potentially disrupt the efficient functioning of the internal market.

Additionally, corn is not suited to long-term storage as quality can decline rapidly. Although the Commission recently adopted stricter eligibility criteria to ensure that corn entering intervention is more suited to storage, that does not solve the problem of rising stocks.

Details of the Commission's resultant proposal to end public intervention for corn from the 2007/2008 marketing year are given in the linked press release and proposal for a Council Regulation.

The Commission asserts that the ending of intervention as an accepted destination for corn in the Central European region would lead to the crop grown in that region regaining its competitiveness both on the domestic and world markets. The consequent reduction in the cost of feedstuffs would have a beneficial impact on the competitiveness of pig and poultry production in these regions.

The proposal has now been sent to the Council and the European Parliament for their consideration. The Council had its first exchange of views on the proposal on 29 January, with several Member States voicing their opposition to the plan as they consider intervention to be a useful market management tool. Opponents to the Commission proposal requested that any decision should be postponed at least until the review of the quality requirements for intervention corn (which was adopted in 2006) can demonstrate the effects on the market. The Council invited the Special Committee on Agriculture to continue the examination of the proposal and to report to the Council. Agriculture Commissioner Mariann Fischer-Boel noted that there was not a majority in favor of the proposal at this stage, but asserted that it was necessary to change the current system and that she would be cooperating with the German Presidency to explore alternatives to the proposed abolition.

Poland has already expressed its opposition to the Commission's plan as a matter of principle. While Poland is not a major corn producer and has little corn in intervention stocks, the intervention system for rye (one of Poland's major grains) was eliminated immediately prior to Polish accession to the EU.

Hungarian reactions to the proposal

The Hungarian Department of Agricultural Markets, Ministry of Agriculture and Rural Development (MARD) and the Intervention Office, Agricultural and Rural Development Office (MVH) suggest that the Commission proposal to end corn intervention will very likely succeed in the end.

Hungarian interests however will push for some form of compensation, with no immediate consensus on the exact formula. The GOH receives interest support from Brussels on loans to procure commodities offered for intervention. This support expires at the end of 2006 but could be prolonged. Similar compensation could be in the form of a specific "envelope" when Hungary starts its new SPS (Sanitary and Phytosanitary) system, more flexibility in use of rural development funds, or the reduction of the "abatimento"[1]. The Commission published a proposal in January 2007 to ease Hungary's financial burden in intervention costs. More specifically, the Commission proposal aims to reduce the burden on Member States for advancing the cost of intervention purchases and storage (before it is reimbursed from the EU budget) in those Member States where interest rates are exceptionally high (ie Hungary). This would be achieved by bridging the gap between the costs felt in Hungary and those that would have been felt under the uniform interest rate in 2007 and 2008 (starting retroactively from October 2006). Given the large volumes of grain bought into intervention in Hungary, the Commission estimates that this will cost the EU budget 9.3 million Euro in 2007 and 10.4 million Euro in 2008. The proposal, which seems to be a concession to Hungarian (Taxation and Customs Union) Commissioner Laszlo Kovacs after he attempted to block the Commission proposal to end corn intervention, will now be forwarded to the Council and European Parliament. Given this budgetary cost, it may be difficult to obtain a qualified majority of Member States to support the move in the Council.

Actual corn intervention stocks in Hungary are at 4.2 million MT. During the last month 282,000 MT of corn was bought from intervention stocks for the EU domestic market (at a price of 113.70 Euro/MT) and for Spain (at 79.39 Euro/MT). Even those who forecast some intervention sales on the grounds of slow removal of export lots from the country expect 100,000 to 150,000 MT offered.

[1] An abatement relating to corn imports, granted within the framework of the GATT resulting from the accession of Spain and Portugal to the EU on 1 January 1986

Zoltan Gogos, State Secretary of the MOA, stressed at a recent press conference that planted area devoted to corn will not change this spring as a result of the cuts in intervention. Corn prices are high, farms have made their crop rotation plans for next spring, and they have ordered or purchased the seed for planting. Additionally, there is no alternative crop for corn in the medium term. The extremely dry fall-winter, however, leads to a forecast lower than average corn yield in Hungary for 2007.

On domestic corn consumption, the GOH wishes to enhance animal production because of losses in production since EU membership and high feed grain prices. Corn use destined for bioethanol production may also increase, but major investments will not be completed until the end of 2008.

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